

Euro Area Macro Monitor

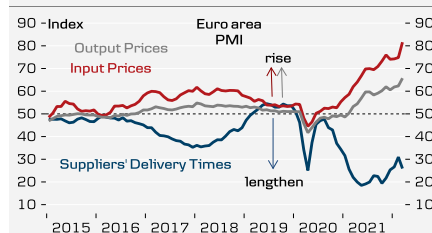
Caught in the stagflation trap

- **Stagflation remains the big euro area theme, as inflation pressures intensified, while consumers and firms grew more cautious on the outlook during March.** The first data releases after Russia's invasion of Ukraine made for an ugly reading. ZEW expectations, Ifo business climate, investor and consumer confidence all plunged to levels last seen during the pandemic. That said, other indicators such as the PMIs presented a less bleak picture. The truth probably lies somewhere in between, i.e. a marked growth slowdown, but not necessarily yet a euro area recession. Consumers' reaction will be crucial for the economic fallout. Unemployment expectations have risen during March, while the willingness to spend has abated in light of high uncertainty, which suggest a slowdown in private consumption growth lies ahead, but elevated levels of savings from the pandemic also provide some buffer for consumption in our view.
- **The manufacturing sector remains especially exposed** to renewed supply bottlenecks and Russia's request for gas payments in roubles increases the risk of a halt in energy flows. Germany, Austria and Italy continue to reject a Russian energy embargo, arguing that the economic consequences are too severe, but pressure on the EU is rising to step up its sanctions response and divisions among member states have become ever more apparent. As we outlined in [Research Russia - EU embargo on Russian energy could be a game-changer](#), 23 March, an embargo on Russian energy would be among the most effective ways to pressure the Russian economy. A sudden stop for energy imports, would, however push European energy prices even higher and likely lead to power outages especially for energy-intensive industries. HICP and core inflation already rose to new record highs of 7.5% and 3.0% during March and with cost-push inflation still working its way through pricing chains, we doubt that we have seen the inflation peak yet.
- **EU governments have tried to limit the economic fallout through a range of support measures for households and firms** (i.e. fuel rebates, tax cuts, subsidies to low income households and incentives for energy saving measures, see overview next page). *ECB estimates* that additional fiscal measures announced in the euro area since the invasion amount to ca. 0.4% of GDP, a smaller fiscal stimulus as seen during the Covid-19 pandemic. However, we see scope for measures to be stepped up in line with growing recession risks, not least amid growing calls to prolong the exemption of EU fiscal rules beyond 2023.
- **Stagflation presents a policy dilemma for ECB**, but at the March meeting the Governing Council nevertheless decided to accelerate the pace of policy normalisation, with faster QE tapering in Q2 and net purchases to end in Q3 22, paving the way for a potential first rate hike as early as September this year, as markets are currently pricing. We continue to expect a 25bp only by December, but with inflation continuing to surprise on the upside, the balance of risks lies towards a faster policy tightening. Especially the development of wage growth remains an important variable to follow in that respect (read more in [Euro inflation notes - The wage conundrum](#), 1 April).

Key points

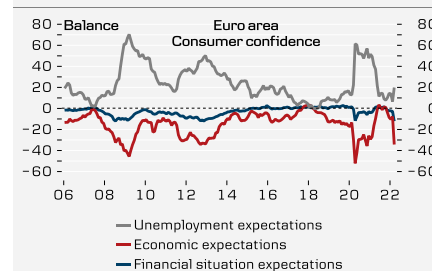
- Inflation pressures intensify, while consumers and firms grow more cautious
- ECB accelerates policy normalisation, as inflation continues to surprise on the upside

Growing stagflationary headwinds



Source: Markit, Macrobond Financial, Danske Bank

Consumers grow more cautious on the outlook



Source: EU Commission, Macrobond Financial, Danske Bank

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EU fiscal measures help cushion the blow

**France**

- Fuel rebate of €0.15/l from April-July (€2bn)
- One-off €100 subsidy for low income earners in Dec (€3.8bn)
- Cap on gas prices extended until end-22 (€6.4bn)

**Spain**

- Reduction in energy taxes until April (€12bn)
- Fuel rebate of €0.20/l, tax breaks, loans to families & businesses and price caps on gas until June (€16bn)

**Germany**

- 1st relief package (€15.6bn): lower taxes on electricity ('EEG Umlage') from July and increased subsidies for commuters and people dependent on social security
- 2nd relief package (€14-16bn): one-off €300 tax cut for individuals (+extra discounts for low-income families); 3-month cut to petrol (€0.30/l) and diesel (€0.14/l) taxes; 3-months €9 pass for public transport; delayed exit of coal, stepped-up investments in energy efficiency

**Italy**

- Fuel discount of €0.25/l until April; social bonus for electricity and gas for low income earners until end-22; energy bills can be paid in installments for 2 years; company tax credits for gas/power consumption (€20.4bn)

**Netherlands**

- Reduced energy tax for households and businesses for 2022 (€3.2bn)
- One-off energy allowance of €800 for low-income earners, VAT on energy reduced from 21% to 9% (€2.8bn)
- Fuel discount of €0.17/l for petrol and €0.11/l for diesel tax until the end-2022
- €150mio to support low-income household with energy saving measures

**Belgium**

- Relief package (€2.4bn): VAT on electricity reduced from 21% to 6% until September
- One-time €100 reduction on all households' energy bills and €200 payment for oil-heated households
- Social tariff for low income households until September

**Portugal**

- AUTOvoucher subsidies raised to €20 during March
- Carbon taxes suspended until June
- Possible price caps on gas

**Austria**

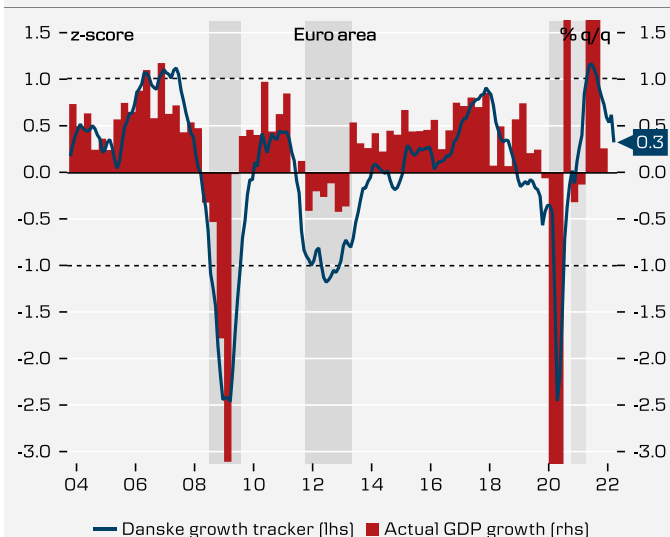
- Relief package (€1.7bn): Household to receive €150 (€300 if in need) in energy cost compensation
- Reduction in taxes by 90% on natural gas and electricity until June 2023
- 50% increase in the commuter allowance, delayed tax payments and investment support

Source: Bruegel, Danske Bank

The Danske euro area growth tracker

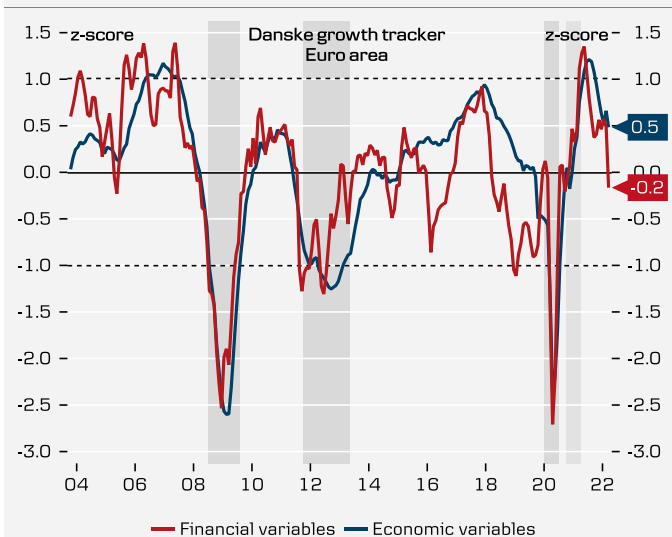
Our growth tracker eased noticeably to a value of 0.3 in March, reflecting broad-based declines in financial variables, but also renewed weakness in economic variables such as consumer confidence and PMIs. In light of the growing headwinds for the euro area economy, our growth tracker traffic light has switched back into 'red', signalling an elevated recession risk.

Growth tracker and actual GDP growth



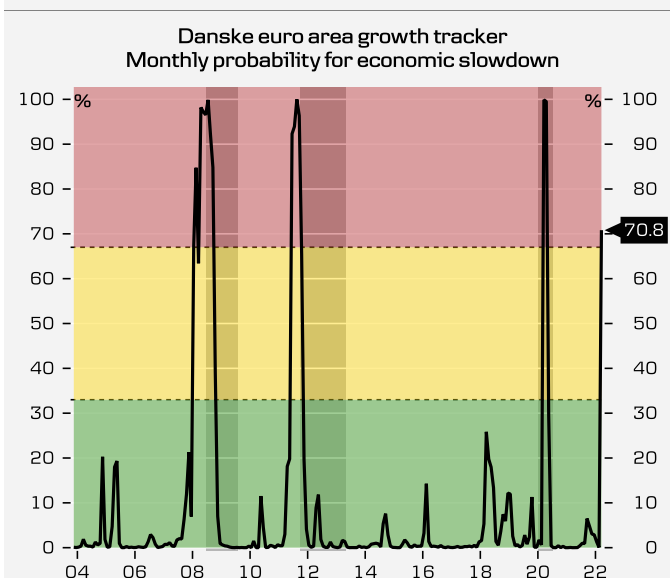
Note: Shaded area indicates historical recessions
Source: Macrobond Financial, Danske Bank

Growth tracker: financial and economic variables



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Source: Macrobond Financial, Danske Bank

Monthly probability of economic slowdown



Note: Shaded area indicates historical recessions
Source: EViews, Macrobond Financial, Danske Bank

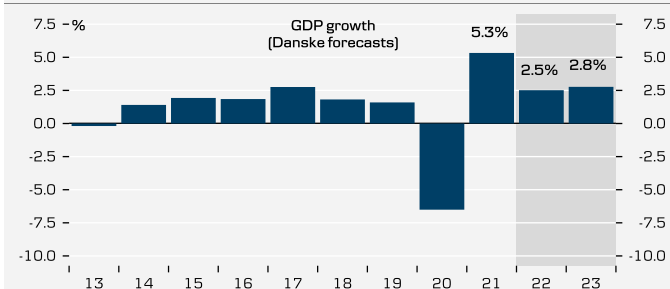
Danske growth tracker decomposition

	March 2022
Economic variables	0.5
Unemployment	1.7
EuroCOIN	1.0
European sentiment indicator	0.9
Real M1 growth	0.9
PMI order-inventory balance	0.7
Profit growth	0.5
Composite PMI	0.5
OECD CLI	0.4
Capacity utilisation	0.4
Credit growth	0.3
ZEW	0.0
Consumer confidence	-1.4
Financial variables	-0.2
Euro surprise index	0.5
Eurostoxx50	-0.2
Corporate vs. gov. bond yield	-0.4
Sentix	-0.6

Source: Danske Bank

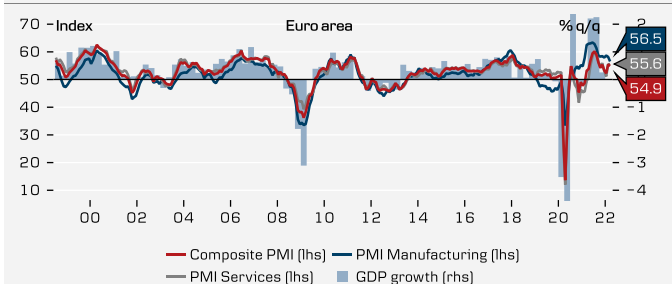
Euro area

GDP growth forecasts



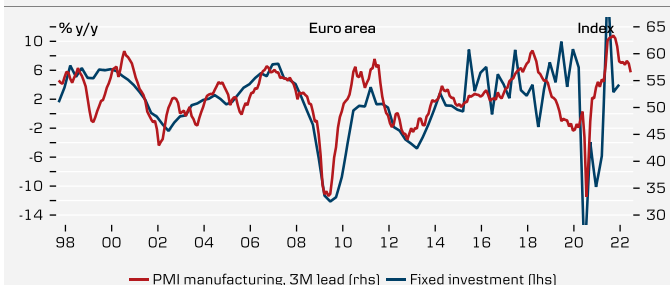
Source: Macrobond Financial, Danske Bank forecasts

PMI and GDP growth



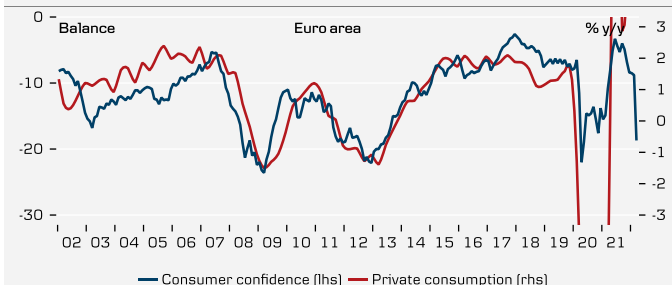
Source: Macrobond Financial, Danske Bank

Manufacturing sentiment and investments



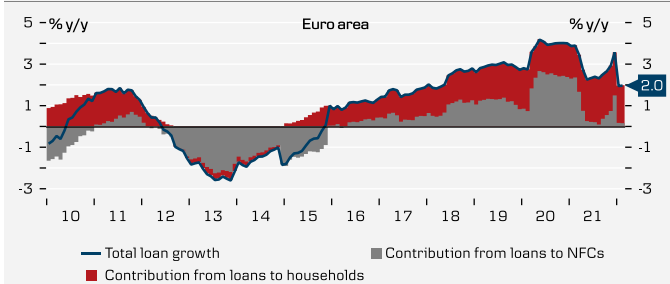
Source: Macrobond Financial, Danske Bank

Consumer confidence and private consumption



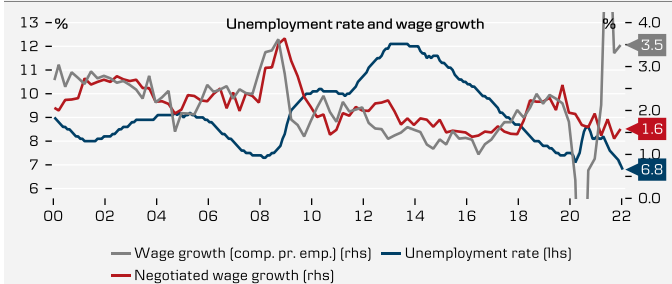
Source: Macrobond Financial, Danske Bank

Credit growth



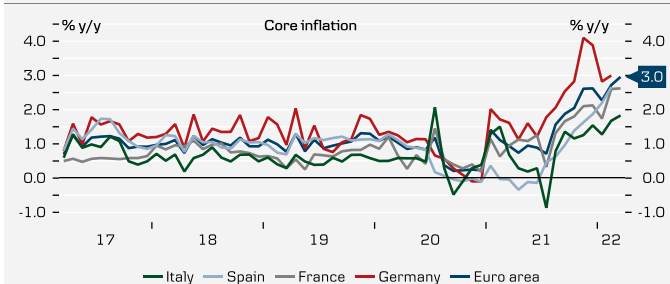
Source: Macrobond Financial, Danske Bank

Unemployment and wage growth



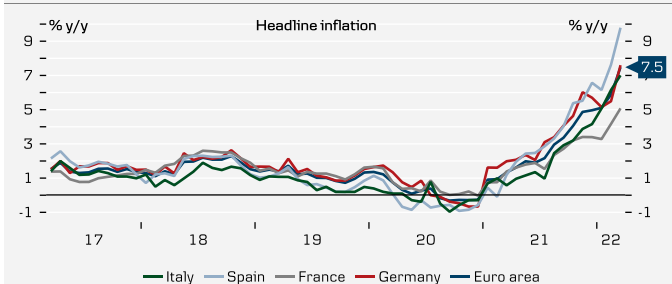
Source: Macrobond Financial, Danske Bank

Core inflation



Source: Macrobond Financial, Danske Bank

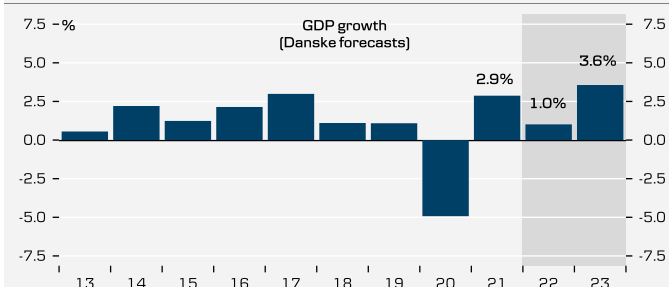
HICP inflation



Source: Macrobond Financial, Danske Bank

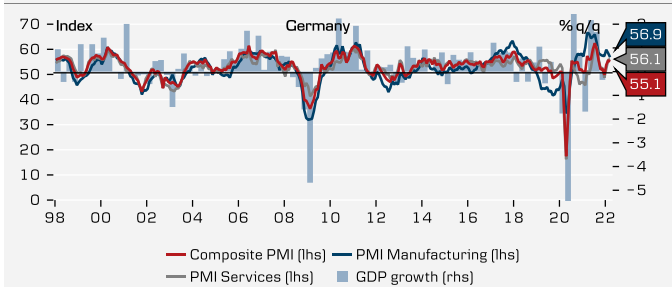
Germany

GDP growth forecasts



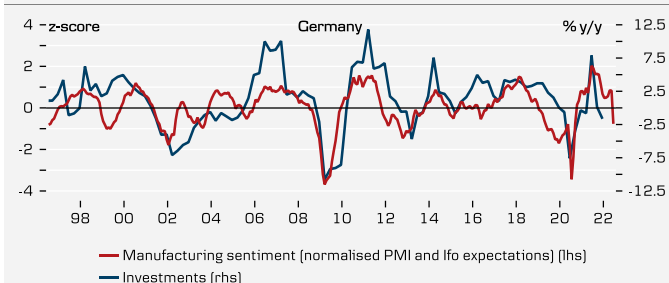
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PMI and GDP growth



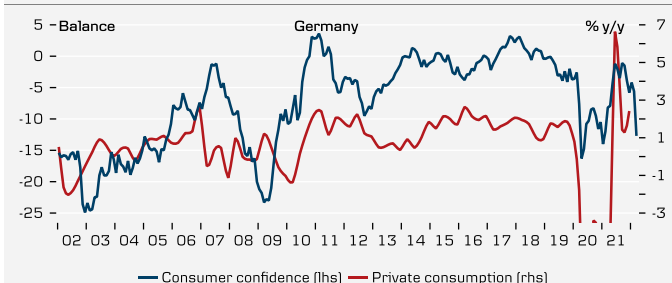
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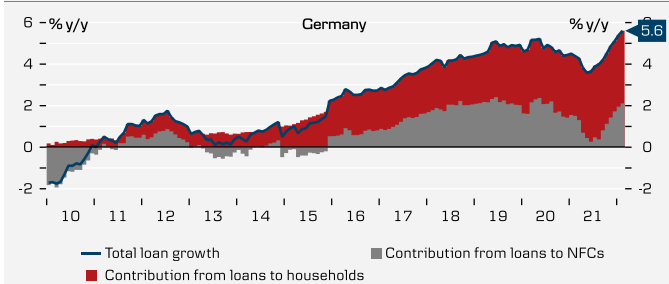
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Consumer confidence and private consumption



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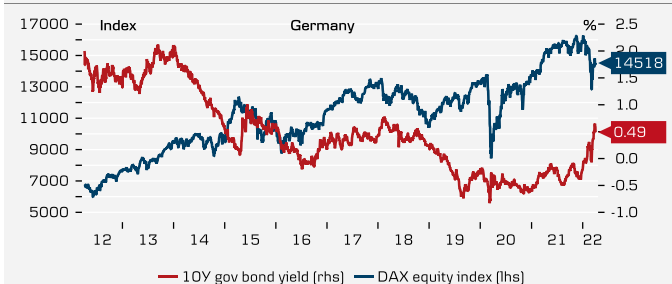
Google mobility trends in retail & recreation



Source: Google Mobility, Danske Bank

Note: The above shows mobility trends for places such as restaurants, cafes, shopping centres, theme parks, museums, libraries and cinemas

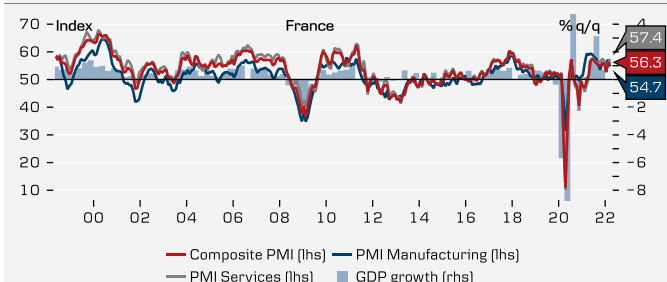
Financial markets



Source: Macrobond Financial, Danske Bank

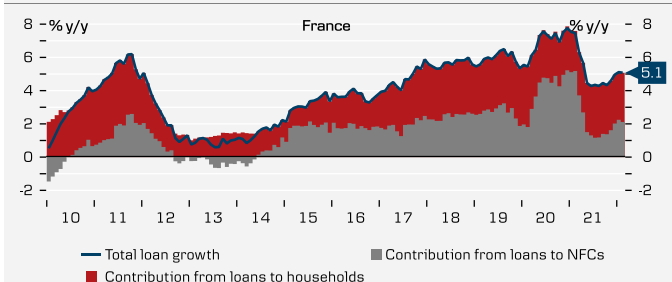
France

PMI and GDP growth



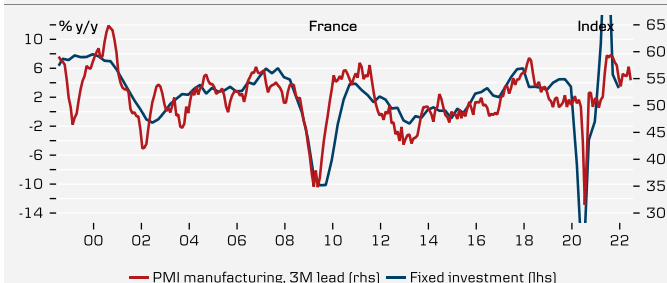
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Credit growth



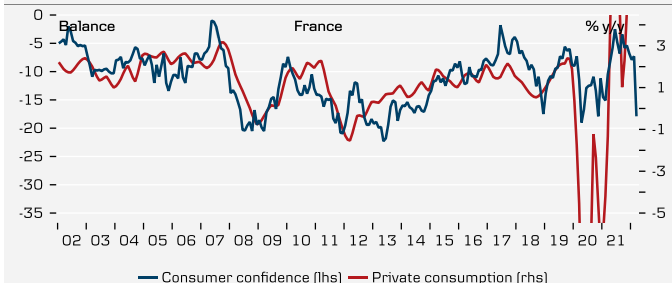
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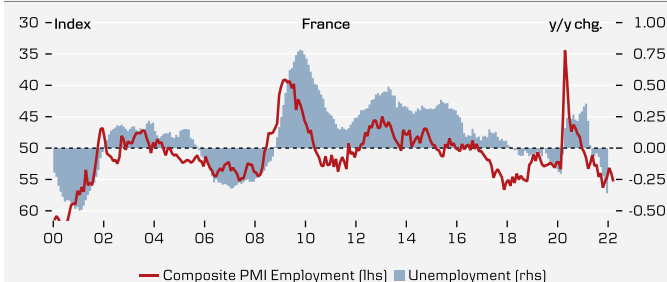
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Consumer confidence and private consumption



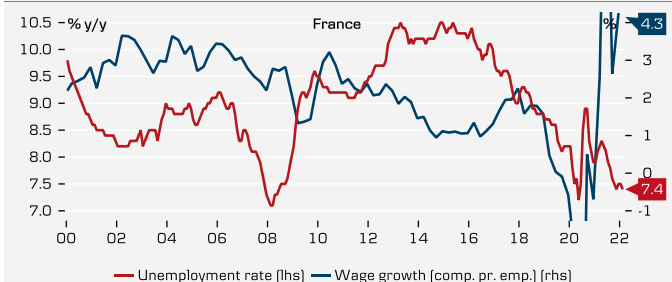
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Unemployment and PMI



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Unemployment and wage growth



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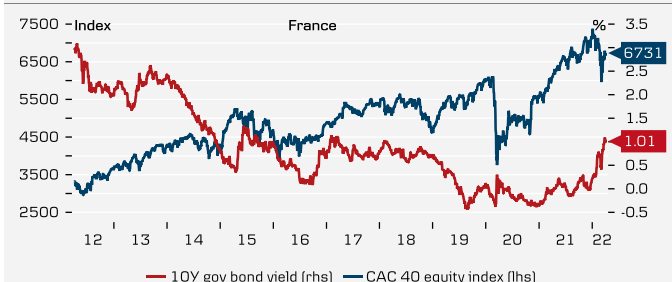
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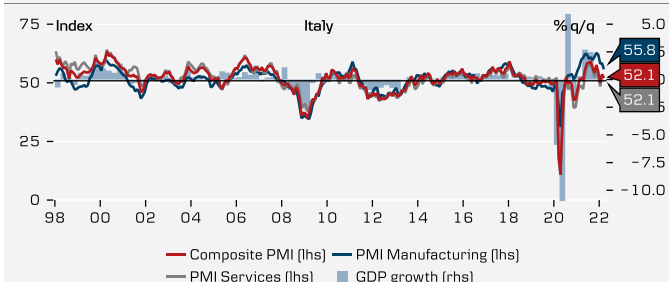
Financial markets



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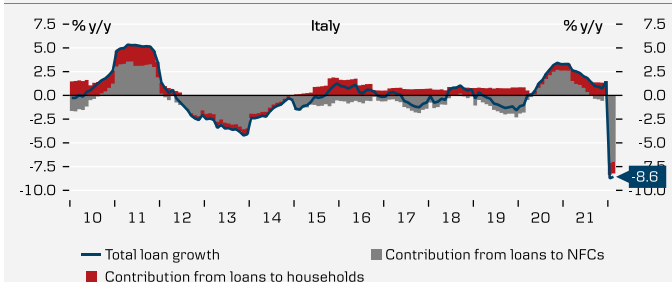
Italy

PMI and GDP growth



Source: Macrobond Financial, Danske Bank

Credit growth



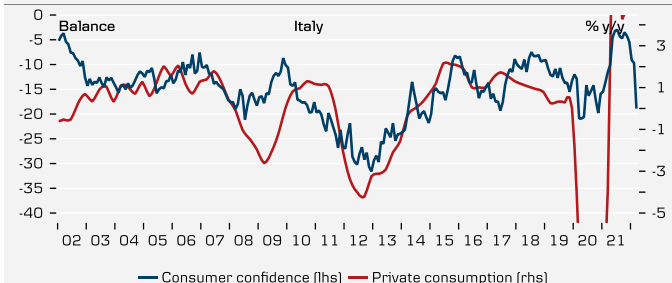
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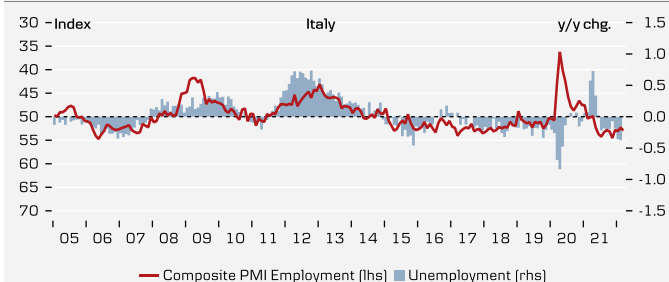
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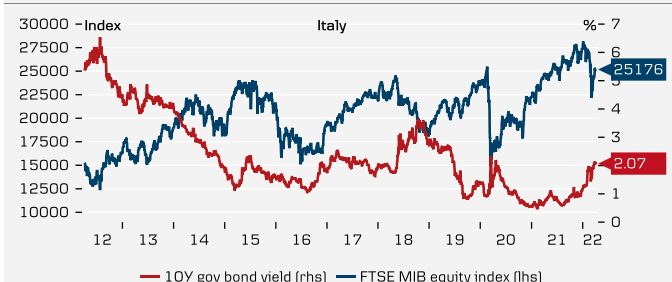
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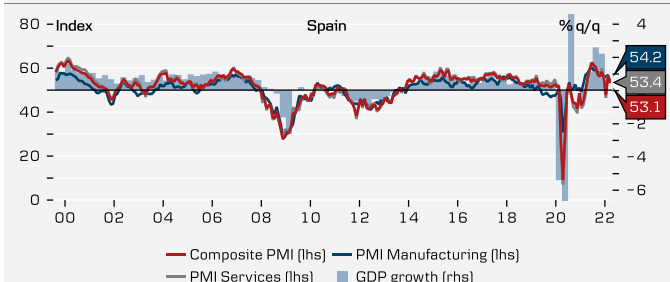
Financial markets



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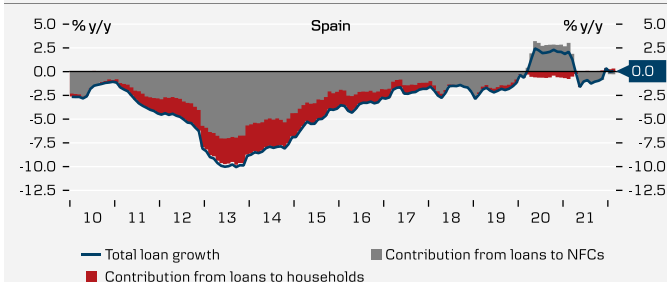
Spain

PMI and GDP growth



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Credit growth



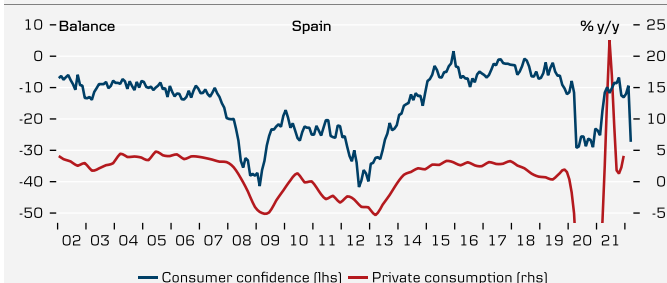
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Manufacturing sentiment and investments



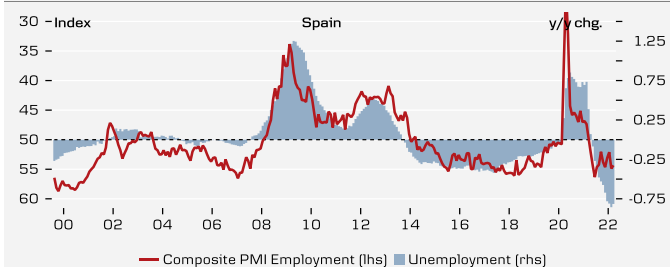
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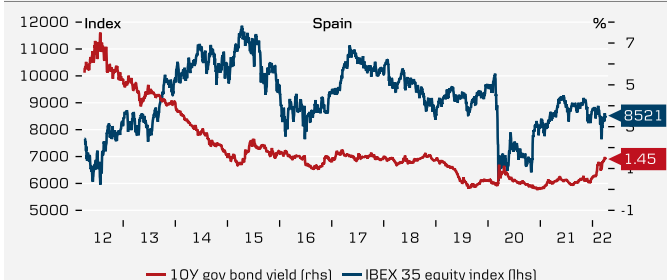
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